

**BEFORE
THE PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA**

DOCKET NO. 2018-318-E

In the Matter of:)	
)	DUKE ENERGY PROGRESS, LLC
Application of Duke Energy Progress,)	ERRATA TO
LLC for Adjustments in Electric Rate)	THE DIRECT TESTIMONY OF DR.
Schedules and Tariffs)	JULIUS A. WRIGHT

ERRATA TO THE DIRECT TESTIMONY OF DR. JULIUS A. WRIGHT

Duke Energy Progress (“DEP”) provides the following errata to the Direct Testimony of Dr. Julius A. Wright.

1. Page 5, Line 1. Replace “Commisison’s” with “Commission’s.”
2. Page 5, Line 20. Replace “is” with “are.”
3. Page 13, Line 20. Replace “Albama” with “Alabama”
4. Page 19, footnote 12. Replace “Compoany” with “Company.”
5. Page 20, Lines 11-12. Replace “the Company” with “DE Carolinas.”
6. Page 25, Line 17. Remove “WITH ANOTHER ELECTRIC UTILITY.”

BEFORE THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

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In the Matter of :

Application of Duke Energy Progress, LLC)	DIRECT TESTIMONY OF
For Adjustments in Electric Rate Schedules and)	DR. JULIUS A. WRIGHT
Tariffs)	FOR DUKE ENERGY
)	PROGRESS, LLC

1 South Carolina ratepayers, the Commission's Code of Regulations Section
2 103-301(2) states the purpose of the Code of Regulations is to *"to define good*
3 *practice...intended to insure adequate and reasonable service."* All of these
4 policies, along with safety and reliability, are further embodied in the Code of
5 Regulations in Sections 103-360 which states *"[t]he electric plant of an*
6 *electrical utility shall be constructed, installed, maintained and operated in*
7 *accordance with good engineering practice to assure, as far as reasonably*
8 *possible, continuity of service, uniformity in the quality of service, and the*
9 *safety of persons and property."*

10 As I discuss further herein, because environmental compliance costs
11 are a necessary used and useful cost of providing safe, reliable and adequate
12 electric service, then it follows that these types of costs – and a return on those
13 costs – are recoverable in rates.

14 **Q. ARE ENVIRONMENTAL COMPLIANCE COSTS A NECESSARY**
15 **EXPENDITURE SIMILAR TO OTHER COSTS A UTILITY MIGHT**
16 **SPEND IN PRODUCING AND DELIVERING POWER?**

17 A. Yes. In order to comply with environmental regulations the Company incurs
18 costs and these are similar to other costs necessary for the generation of
19 electric power. Thus as part of the operating expenses related to coal-fired
20 generating facilities, coal combustion residuals ("CCR") are produced in the
21 coal combustion process, and this ash has been collected in compliance with
22 environmental regulations at the time. These environmental expenses include
23 costs like scrubbers or coal ash facilities which can be rate base type expenses

1 transportation which can be different depending on the location of a
2 generating station (for example, rail service from coal mines to North Carolina
3 can be different, and usually cheaper because of distance, then rail service to
4 South Carolina). In addition, property taxes in South Carolina are higher than
5 property taxes in North Carolina, however these taxes for system assets like
6 generation plants are allocated to the whole system and not recovered on a
7 state specific basis.

8 **Q. HAVE NORTH CAROLINA AND SOUTH CAROLINA SHARED**
9 **ENVIRONMENTAL EXPENSES PRIOR TO THIS CASE?**

10 A. Yes. For example, the Cliffside and Allen generating stations scrubbers
11 mentioned above have been costs shared between the two states. This cost
12 sharing is common where a utility's operations span multiple states and the
13 utility property used to provide one particular state's electric service may be
14 located in another state. Also, the Company has entered into a Consent
15 Agreement with the South Carolina Department of Health and Environmental
16 Control (and a related Settlement Agreement with several environmental
17 groups) dealing with coal ash at the Robinson Plant, and the costs associated
18 with these South Carolina agreements are shared with North Carolina
19 ratepayers. Additional examples of states sharing environmental costs would
20 be the Southern Company utilities in Georgia, Alabama, Mississippi, and
21 Florida, and Entergy with electric utility services in Mississippi, Arkansas,
22 Louisiana, and Texas. In addition, coal ash disposal costs and beneficial reuse
23 revenues have to date been allocated and shared between both states.

1 limited circumstances.

2 **Q. WHAT ARE THE SPECIFIC COAL ASH DISPOSAL STANDARDS**
3 **THAT DE PROGRESS MUST NOW MEET WITH RESPECT TO ITS**
4 **CURRENT COAL ASH DISPOSAL SITES?**

5 A. Company Witness Kerin discusses these standards in detail. In short, the
6 Company must comply with the 2015 Federal CCR Rule adopted by the EPA
7 which established national minimum criteria for active CCR landfills and
8 basins and inactive basins containing water, it must also comply with any
9 CAMA obligations (which are similar to the CCR Rule as discussed by
10 witness Kerin), and it must comply with the Robinson Consent Agreement as
11 well as two Settlement Agreements¹² between the Company and North
12 Carolina regulators and any other state agency requirements, such as those
13 that may be required by DHEC.

14 **IV. THE COMPANY'S PROPOSED COAL ASH COST**
15 **RECOVERY PROPOSAL IS REASONABLE**

16 **Q. WHAT ARE THE COSTS THE COMPANY IS SEEKING TO**
17 **RECOVER THAT YOUR TESTIMONY ADDRESSES?**

18 A. DE Progress has reasonably and prudently incurred and expects to incur a
19 total of \$526.4 million (on a system basis) related to incremental ash pond
20 closure compliance costs from July 2016 through December 2018.

¹² A Sept. 29, 2015 Settlement Agreement Between DE Progress and the North Carolina Department of Environmental Quality with regard to four generating facilities and an agreement between the Company and the same NC agency regarding the Asheville and H.F. Lee generating facilities.

1 **Q. THE COMPANY IS ALSO ASKING THE COMMISSION TO ALLOW**
2 **THE COMPANY TO DEFER COAL ASH RELATED EXPENSES**
3 **PENDING RECOVERY ADJUDICATION IN A FUTURE RATE**
4 **CASE. IS THIS A COMMON PRACTICE UNDER SOUTH**
5 **CAROLINA REGULATORY PROCEDURES?**

6 A. Yes. A deferred account mechanism is not unusual in ratemaking. In his
7 book discussing utility regulation Goodman indicates that “The use of
8 deferred cost accounting in the ratemaking context is so common and so
9 fundamental a regulatory tool that no agency is likely to consider it necessary
10 to study whether as a matter of policy costs should be deferred...”¹³ In
11 Docket No. 2015-96-E (Order No. 2015-308) this Commission allowed DE
12 Carolinas to defer costs associated with coal ash related environmental
13 remediation costs. DE Carolinas also has a currently effective deferral
14 approved in the Commission’s Order in Docket No. 2016-196-E, dated July
15 13, 2016. DE Progress has a similar deferral that is ongoing, which was
16 approved in the Order in Docket No. 2016-227-E, dated December 21, 2016.

17 **Q. IS IT REASONABLE TO EXPECT CUSTOMERS TO PAY FOR THE**
18 **DISPOSAL OF COAL ASH?**

19 A. Yes. Those dollars are required to be spent in compliance with new coal ash
20 disposal requirements. Such a circumstance is not new in the history of
21 environmental regulations in the United States, where it is commonplace for
22 restrictions to be modified and become more restrictive over time. For

¹³ Goodman, Leonard, “The Process of Ratemaking,” Public Utility Reports, Vienna, Va, 1998, p. 322.

1 the Company has historically spent dollars in order to comply with the coal
2 ash disposal regulations in effect at the time, and these dollars were a
3 necessary expenditure related to used and useful utility costs made in the
4 provision of electric service at the time. The Company was, and continues to
5 be, obligated to meet the needs of its customers. This obligation to serve
6 requires the disposal of coal ash subject to the disposal standards at the time,
7 thereby rendering the disposal sites for this coal ash, for which costs DE
8 Progress seeks recovery in this case, “used and useful” in providing electric
9 service. In addition, it should be noted that these same costs were just found
10 to be “used and useful” in three different proceedings in North Carolina
11 including the Company’s proceeding last year where the North Carolina
12 Commission specifically stated that these type of costs were “used and useful
13 in the provision of service to the Company’s customers (Order, Docket E-2,
14 Sub 1131, page 18).

15 **Q. HAS THE COMMISSION ALREADY ADDRESSED THE RECOVERY**
16 **OF THESE SPECIFIC TYPE OF COAL ASH DISPOSAL COSTS?**
17

18 A. Yes. As I mentioned, in Docket No. 2016-227-E, DE Progress was allowed to
19 recover these same coal ash expenses, albeit the Order did state that this
20 finding had no precedential effect and will not prejudice the position of any
21 Party in any future proceeding before the Commission.¹⁹

¹⁹ Order in Docket No. 2016-227-E, Dec. 21, 2016, page 11, paragraph 15.